



OFFICE OF THE COMPTROLLER
CITY OF ST. LOUIS



FILE COPY

Carnahan Courthouse Building
1114 Market St., Room 842
St. Louis, Missouri 63101
(314) 622-4723
Fax: (314) 613-3004

DARLENE GREEN
Comptroller

Internal Audit Section

DR. KENNETH M. STONE, CPA
Internal Audit Executive

March 11, 2011

Frank Oswald, Deputy Building Commissioner
Department of Public Safety
Building Division
1200 Market Street, Room 426
St. Louis, MO 63103

RE: Building Division-Revenue Review (Project # 2010-46)

Dear Mr. Oswald:

Enclosed is the Internal Audit Section's report of the revenue review of the Building Division for the period July 1, 2008 through December 31, 2009. A description of the scope of work is included in the report.

Fieldwork was completed on September 3, 2010. Management's responses to the observations and recommendations noted in the report were received on March 2, 2011, and have been incorporated in the report.

This review was made under authorization contained in Section 2, Article XV of the Charter, City of St. Louis, as revised, and has been conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

If you have any questions, please contact the Internal Audit Section at (314) 622-4723.

Respectfully,

Kenneth M. Stone

Dr. Kenneth M. Stone, CPA
Internal Audit Executive

Enclosure



CITY OF ST. LOUIS

DEPARTMENT OF PUBLIC SAFETY

BUILDING DIVISION

REVENUE REVIEW

JULY 1, 2008 THROUGH DECEMBER 31, 2009

PROJECT #2010-46

DATE ISSUED: MARCH 11, 2011

**Prepared by:
The Internal Audit Section**



OFFICE OF THE COMPTROLLER

HONORABLE DARLENE GREEN, COMPTROLLER

**CITY OF ST. LOUIS
DEPARTMENT OF PUBLIC SAFETY
BUILDING DIVISION
REVENUE REVIEW
JULY 1, 2008 THROUGH DECEMBER 31, 2009**

EXECUTIVE SUMMARY

Purpose

The Internal Audit Section (IAS) has completed a revenue review of the Building Division. The purpose was to determine if the Building Division effectively and efficiently manages risks to ensure:

- Accomplishment of established objectives and goals
- Compliance with applicable laws, regulations, policies, and procedures
- Safeguarding of assets
- Reliability and integrity of operational information
- Economic and efficient use of resources

Conclusion

Opportunities exist for the Building Division to improve controls over its operational activities. The following are observations resulting from the review:

1. Opportunity to improve the collection of unpaid administrative fees
2. Opportunity to improve control over revenue collection and reporting
3. Opportunity to improve monitoring of cash receipts **(Repeated)**
4. Opportunity to improve segregation of duties **(Repeated)**
5. Opportunity to improve and document supervisory review **(Repeated)**
6. Inadequate retention period for source documents **(Repeated)**

Each of these observations is discussed in more details in the *Detailed Observations, Recommendations and Management's Responses* section of this report.

Dr. Kenneth M. Stone, CPA
Internal Audit Executive

Date

**CITY OF ST. LOUIS
DEPARTMENT OF PUBLIC SAFETY
BUILDING DIVISION
REVENUE REVIEW
JULY 1, 2008 THROUGH DECEMBER 31, 2009**

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INTRODUCTION

Background

St. Louis City Charter, Article XIII, Section 15, established the Building Division as a division within the Department of Public Safety. The Building Division is responsible for enforcement of all codes and ordinances regulating the protection of the public health, safety and welfare as related to the “mode or manner of construction and the materials to be used in the erection, alteration, repair, removal, or demolition of a building or structure, or the installation of service equipment, and the location, use, occupancy and maintenance of all buildings, structures or premises”.

Main Sources of Revenues

The Building Division generates revenues in the form of fee charges for inspection and repair permits on building constructions; installation, repair and replacement of equipment and systems within their respective jurisdiction. The Division also generates revenues from licenses issued to various trades operating within the City jurisdiction. Fees (rates) charged for the various permits issued by the Division are defined by the applicable City ordinances.

Some of the permits for which fees are collected and selected for review are building, demolition, electrical, mechanical, plumbing, certificate of inspection and plumbing back flow device test.

Purpose

The purpose was to determine if the Building Division’s procedures for charging and collecting fees on various permits (Building, Demolition, Electrical, Mechanical, Plumbing, Housing Conservation District Certificate, etc.) have adequate controls in place to provide reasonable assurance of:

- Accomplishment of established objectives and goals
- Compliance with applicable laws, regulations, policies, and procedures
- Safeguarding of assets
- Reliability and integrity of operational information
- Economic and efficient use of resources

The combined revenues generated from all various permits / licenses per the City’s General Ledger during the fiscal year ended June 30, 2009 was \$8,933,251 while the combined revenues generated in fiscal year ended June 30, 2010 was \$7,812,059

Scope and Methodology

The review was confined to evaluating internal controls over the permits/licenses fees collected by the Building Division. The audit procedures included inquiries of management and other staff, observations of relevant processes, and reviews for compliance with policies and procedures, as well as applicable laws and regulations. Limited tests of controls, follow-ups on prior audit observations and other procedures as considered necessary were performed.

Exit Conference

An exit conference was conducted at the Building Division Conference Room on February 22, 2011. The Building Division was represented by Frank Oswald, Deputy Building Commissioner; Mourning Randall, Administrative Assistant and Kimberly Maloney, Permit Supervisor. The Internal Audit Section was represented by Dr. Ishmael Ikpeama, Audit Supervisor and Olaide Hassan, Auditor-in-Charge.

Management's Responses

Management's responses to the observations and recommendations noted in this report were received from the Building Division on March 2, 2011. The responses have been incorporated into this report.

OBSERVATIONS

Status of Prior Observations

The Internal Audit Section (IAS) performed a revenue review of the Building Division's fiscal activities. The report, issued April 22, 2010, contained the following observations:

1. Need to improve controls over issuance of revenue-generating documents (**Resolved**)
2. Opportunities to improve monitoring of cash receipts (**Repeated**)
See current observation #3
3. Opportunities to improve segregation of duties (**Repeated**)
See current observation #4
4. Opportunity to enhance fees collection efficiency (**Resolved**)
5. Opportunities to enhance compliance with permit requirements (**Resolved**)
6. Opportunities to enhance supervisory review (**Repeated**)
See current observation #5
7. Opportunities to develop written policies and procedures (**Resolved**)
8. Inadequate retention period for source documents (**Repeated**)
See current observation #6

State Audit:

The State Auditor's Office also performed an audit on the operational and fiscal activities of the Department of Public Safety-Building Division. The observations and statuses as determined by the auditor are noted below:

- Building Division procedures for processing receipts need improvement. Various Sections of the Building Division record receipts on unnumbered receipts without duplicate copies.

Status: Partly Resolved

Based on discussion with the Executive Assistant and contract documents reviewed, the division has awarded a contract to implement the web based permits application and on-line payments processing for the other trades (Plumbing, Mechanical, HCD, Building, Occupancy, etc.). With the implementation of the on-line permit application processing, the control weakness resulting from unnumbered receipts issued to applicants will be resolved.

Status of Prior Observations (Cont'd.)

The Electrical section has successfully implemented the web-based permit application processing. The web-based permit application processing will be fully implemented in all sections by the early part of 2011. This will not be included in current observation.

- Licenses and electrical contractor permits issued are not reconciled to the monies collected and amounts transmitted. The Building Division does not note the permit number on some receipt slips issued. It cannot be determined whether a license or electrical contractor permit fee has been collected when the license or permit number is not indicated on the receipt slip. In addition, the Building Division does not indicate the receipt slip number in the computer system for license and electrical contractor permits.

Status: Resolved

The Permit Supervisor reviewed regularly the bank statement for the on-line bank accounts used for processing the electrical permit applications payments. Based on auditor's review, the permit number is now included on the cashier's cash receipts issued to applicant for payments to the Cashier.

- The Building Division receivable procedures for electrical permit, demolition, and building violation administrative fees need improvement. Monitoring procedures related to outstanding electrical permit fees are not adequate. The Building Division did not perform any follow-up on outstanding electrical permit fees. Per the report, outstanding electrical permit fees, totaled over \$81,000.00
- The Building Division does not ensure demolition costs are correctly billed to various property owners. Owners of condemned buildings were not billed accurately.
- The Building Division has not performed a cost benefit analysis to determine when a lien should be placed on property for unpaid building violations.

Status: Not Resolved (See current observation #1)

The Executive Assistant to the Commissioner indicated that the Demolition Supervisor has been instructed to review all billings for demolition prior to submission to the respective departments. Auditor did not verify this claim. He also indicated that the City Counselor's Office determines when a lien should be placed on properties for unpaid building violations and administration fees.

Summary of Current Observations

The opportunity exists for the Building Division to improve controls over its revenue generating activities. The following are observations resulting from the review:

Summary of Current Observations (Cont'd)

1. Opportunity to improve the collection of unpaid administrative fees
2. Opportunity to improve control over revenue collection and reporting
3. Opportunity to improve monitoring of cash receipts **(Repeated)**
4. Opportunity to improve segregation of duties **(Repeated)**
5. Opportunity to improve and document supervisory review **(Repeated)**
6. Inadequate retention period for source documents **(Repeated)**

Each of these observations is discussed in more detail in the *Detailed Observations, Recommendations and Management's Responses* section of this report.

DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT'S RESPONSES

1. Opportunity To Improve On The Collection Of Unpaid Administrative Fees

The Building Division charged property owners, administrative citation fines for non-compliance with various codes violation notices. However, a large proportion of the fines remained uncollected.

Based on the Division's records reviewed, the uncollected fines for fiscal years 2009 and 2008 were \$2,303,649 and \$1,787,300 respectively. The projection for FY 2010 is \$1,993,982. Total outstanding administrative fines to-date is \$6,084,631. Uncollected administrative fines with liens filed on properties by the City Counselor's Office were \$1,209,150.

As of October 14, 2009, the sum of \$37,700 out of \$1,209,150 (uncollected administrative fines with lien filed on properties with violation notices) had been recovered by the City Counselor's Office and paid to the City. The Building Division does not have any information of the account or fund center where the fines recovered by the City Counselor's Office were deposited.

City Ordinance #66857, Section 3(a) authorized the Building Division (code official) to issue administrative citation(s) to the owner or owners of building, structure or premises if notice of violation is not complied with. The administrative citation includes the amount of the fine for the code violation. Section 4(a) of the same Ordinance authorized the Building Division to charge an administrative citation fine of twenty-five (\$25) for the first violation.

The Building Division has not established any standard collection procedures to recover the unpaid administrative fines. While the City Counselor's Office considers cost effectiveness in filing liens on properties with code violations (unpaid balances in excess of \$500), the Building Division has not established standard procedures to follow-up with the City Counselor's Office on the recovery. The Building Division indicated that it will require the approval of the State legislatures to have the unpaid administrative fines included in the property owners' statutory taxes (e.g. property tax).

Failure to recover the uncollected administrative fees amounts to loss of City revenues. The City may not recover costs involved with the required inspections to ensure compliance with applicable building codes.

Recommendation

IAS recommends the Building Division management:

- Meet with the City Counselor's Office to explore other legal remedies to facilitate recovering of the unpaid administrative fines with the properties owners' (where no lien will be filed on property).

1. Continued... ..

- Obtain from the City Counselor's Office monthly or quarterly reports on unpaid administrative fines recovered and account information of where the funds were deposited.
- Discuss with the City Counselor's Office the possibility of employing the services of a collection agency registered with the City to assist in the recovery of unpaid administrative fines.
- Contact other Cities and Municipalities for information on the process adopted in collecting unpaid administrative fees on building codes violation in their jurisdiction.

Management's Responses

The Building Division is in agreement with all audit recommendations regarding collection of admin fees. The Division is aware of the significant financial impact that collection of unpaid fees represent. (see Attachment One-monthly Building Division In-House report monitoring admin fees)

The Building Division continues to promote attaching unpaid admin fees to annual real estate tax bills. We conservatively estimate that such a measure would generate an additional \$1,000,000.00 in annual revenue. Unfortunately, this requires a State Ordinance that as yet has not been successfully passed by the State. It remains the opinion of the Building Division that the above method represents the most cost effective procedures to collect unpaid admin fees.

- *The Building Division will meet with the City Counselor's Office in an attempt to strengthen the admin fee collection effort.*
- *The Building Division will attempt to establish a quarterly meeting with the City Counselor's Office to improve dialogue/ teamwork relating to collection of admin fees.*
- *The Building Division will seek monthly or quarterly reports on collection activity as well as lien replacement data.*
- *The Building Division will explore the possibility of assigning unpaid admin fees accounts, deemed too small for liens, to a collection agency.*

Finally while the opportunity to improve collections clearly exists, we should not overlook the dramatic improvement the imposition of admin fees has had upon code enforcement in general. Prior to the admin fee procedure, the only option available to the Building Division for non compliant property owners was to place them in Building Court. While this looked good on paper this system soon became overloaded and terribly inefficient. It took eight months for a case referred to Building Court to obtain a first case setting. Since the implementation of the admin fee procedure, it now takes only one week to get a problem landlord into court. At this level, the admin fee procedure has been an unqualified success.

2. Opportunity To Improve Control Over Revenue Collection and Reporting

IAS reviewed and compared the Cashier's daily receipts' reports with City's general ledger balances for the months of April, August and November 2009. The total revenues from the selected permits for the three months per the Cashier's report and the City general ledger reports, are as stated below:

PERMIT TYPE	TOTAL REVENUE A (Cashier's Report)	TOTAL REVENUE B (City G/L)	DIFFERENCES A-B
1. BUILDING	\$ 386,686	\$268,387	\$118,299
2. DEMOLITION	10,304	11,453	(1,149)
3. MECHANICAL	71,284	74,124	(2,840)
4. PLUMBING	87,550	87,246	304
5. ELECTRICAL	229,540	230,443	(903)
6. BACK-FLOW DEVICE TEST	46,290	48,955	(2,665)
7. HCD-CERTIFICATE OF INSPECTION	339,560	335,300	4,260
TOTAL	\$1,171,214	\$1,055,908	\$115,306

Based on the above, revenues (fees) per the Cashier's report for each permit did not agreed with the City general ledger balances. There was no evidence that the accounts balances were reconciled to identify the differences.

Good management practices require reconciliation of revenues collected and reported by the Division to the City's general ledger at least monthly.

The timing difference between the deposits of collected fees with the Treasurer's Office by the cashier and the posting to the City general ledger by the Comptroller's Office may possibly accounts for the differences. The Division's cashier deposits daily receipts with the Treasurer's Office one day after collection while the Comptroller's Office post entries into respective accounts couple of days after. The Building Division management is currently reviewing internal records and the City general ledger report to provide explanations for the differences noted.

Failure to reconcile the Building Division's monthly revenues collected with the City's general ledger balances increases risk that irregularities or errors in recording and reporting of revenues to appropriate accounts may not be timely detected.

Recommendation

IAS recommends that the Building Division management:

- Ensure the monthly and cumulative revenue per the cashier's report is reconciled with the receipt coding forms (RCFs) for the daily deposit and the City general ledger. Discrepancies identified should be investigated.

2. Continued... ..

- Designate a responsible officer of the Building Division independent of the Cashier or Permit Supervisor to perform monthly reconciliation.

Management's Responses

The Building Division has had time to review the discrepancies between our internal Cashier's report in April, August, and November 2009 and the General Ledger. The differences can be explained by the fact that the last two daily receipts each month are not posted to the General Ledger for that month, but are accounted for in the following month in the General Ledger.

3. Opportunity To Improve Monitoring Of Backflow Device Cash Receipts (Repeated)

Based on IAS review, the following were noted:

- The Data Flex system (software recording information and generating permit) report did not include payments received for the Plumbing Section's recording of the annual tests of plumbing backflow devices (a plumbing device installed in private homes, commercial and public buildings with a sprinkler systems or swimming pool).
- Records of payment collected from customers for current and prepaid backflow device test reports are maintained in a loose note book. The advance payments are credited against the completed test reports.
- The forms used were not pre-numbered
- No duplicate of the cashier's cash receipts was maintained for the deposits of backflow device test report fees.
- Checks received in the mail by clerical staff were not logged

Maintaining a duplicate copy of the cashier's cash receipts and a log for payment by checks received in the mails for backflow device test reports, will ensure adequate controls over cash receipts.

The planned modification of the Data Flex system program by the ITSA was not implemented. This would have included payments for the annual tests of backflow device performed in the Data Flex system report. The clerical staff considered the loose notebook currently maintained for recording checks received for advance payments for the back-flow device test reports as adequate.

Failure to maintain a proper log for checks received in the mail as advance payments for backflow device test reports may make it difficult to promptly identify and account for any missing checks. The lack of duplicate copy of cashier's cash receipts may not allow the

3. Continued... ..

reconciliation of payment checks received to the clerk's records of backflow device test reports.

Recommendation

IAS recommends the following to improve the controls over cash receipts:

- Plumbing Unit clerical staff should maintain a log (on spreadsheet) to document advance payment checks received by mail for the backflow device test reports.
- Plumbing Unit maintain a copy of the cashier's cash receipts on file for all check payments deposited with the cashier for the backflow device test reports.
- Plumbing Unit should reconcile cashier's cash receipts duplicates with the with the clerical staff record of payments received for the backflow device test reports.

Management's Responses

The identified weakness in the monitoring of Backflow Device cash receipts has already been addressed via Implementation of the new Trades Web Based Operating System. This new system automatically reports Backflow revenue via established daily/monthly web reports. In addition, our newly obtained computerized cash register in the very near future will have the ability to differentiate and separate Backflow plumbing revenue from plumbing permit revenue.

4. Opportunity To Improve Segregation Of Duties

Based on IAS observations and discussions with management, the following were noted following:

- The Building Division cashiers were responsible for opening the mails for the Housing Conservation District. The mails contained applications and payment checks for the Certificate of Inspection permits.
- The Permit Supervisor, with authorized access to the Division's Data Flex information system, occasionally processes applications and issues building permits. The Supervisor also reconciles the daily entry totals for all permit classifications in the system to the corresponding general ledger account total from the Cashier's Cash Receipts.
- At the Plumbing and Mechanical Sections, the staff clerks who opened the mails were also responsible for issuing the respective permits. The sections' mails contained checks or money orders submitted as payments for permit fees or payments for the backflow device test reports.

4. Continued... ..

Sound accounting principles recommend segregation of duties if a person performs two or more incompatible functions (for example: billing, receiving payments, and recording cash receipts entries). In circumstances, where shortage of personnel prevents proper segregation, compensating controls (management review) should be emphasized. Management indicated there were shortages of staff to facilitate the segregation of all incompatible duties. The cashiers considered the log maintained for the checks received by mails with the application for Certificate of Inspection and the rotation of functions at closing (logging and daily balancing performed by different cashier), as compensatory controls. Furthermore, the impending retirement of one of the cashiers or the absence of any of the cashiers may further affect the segregation of duties situation.

Failure to segregate incompatible functions, or to implement adequate compensatory controls, increases the risk that errors or misappropriation of assets may occur and not be detected timely. The Permit Supervisor performing other incompatible clerical duties may not be able to effectively supervise the cashiers and the customer service representatives. Errors or omissions made by the cashiers, customer service representative and even the Permit Supervisor performing the clerical duties may remain unnoticed. The Supervisor may not effectively perform an intended control functions over the activities in which she is also a participant.

Recommendation

IAS recommends that management:

1. Assign the function of opening and logging mails to someone independent of obtaining payments, billing and issuing permits or certificates, balancing, and preparing deposit of cash receipts.
2. Implement adequate supervisory review if shortage of personnel prevents proper segregation of duties.

Management's Responses

While the Building Division respects the accounting principle of segregation of duties, the reality of our fiscal situation is such that Clerical Staff has been reduced approximately 20% over the last four fiscal years. While improved technology has reduced the need for some clerical support, we are nevertheless being asked to do more with less. In most areas we are increasing cross training and asking staff to perform more functions. However, in areas of perceived financial risk, we will endeavor to implement segregation of duties wherever practical.

5. Opportunity To Improve and Document Supervisory Review (Repeated)

There was no evidence of any supervisory review of permit applications processed and issued. There is no procedure for supervisory review to verify the adequacy of information provided on the application and the accuracy of the fees charged (Data Flex) by the computer system. Mechanical permit applications approved for changes to the permit fees charged on an application was not documented. For example, on the application submitted for permit # AM 475768-09, the initial fees calculated and charged was \$12,645. The fee was subsequently revised down and actual payment made on the permit was \$10,265. The reason(s) and approval for the down-ward revision of the fee charged was not documented on the application.

Necessary and clearly stated information to ensure appropriate fees charged were not included on some of the applications reviewed. For example, on permit application # AM 469527-09, the mechanical work performed was described as installing one (1) vent system. On the same application, description of work performed as stated in the remark section (box 20) indicated fire smoke damper replacement. Fees charged and collected on the permit issued was \$65. Per the mechanical permit fees schedule provided, the appropriate fees (application and permit fee) for installation of ventilation system starts from \$105 (\$25 +\$80) depending of the capacity or size.

Complete permit application should include proper detailing of equipment to be installed (such as type and capacity), and/or work to be performed. Effective supervisory control involves proper documentation of approved changes to the fees charged on the permit applications.

The Building Division does not have any written policies and procedures to document approve changes made to permit fees charged and details of work to be performed on permit applications.

Failure to have written policies and procedures of work to be performed or equipment to be installed to process permit applications may result in underpayment of applicable fees and subsequent loss of revenue to the City. Lack of proper documentation of approval for revision of permit fees may lead to a potential abuse and adjustment of fees by unauthorized individual.

Recommendation

IAS recommends that the Building Division's management require the respective sections to establish written policies and procedures to:

- Define the information to be provided on every application processed and approved.
- Define appropriate authorization for revision and adjustment to permit fees. Such approval and reasons for revision/adjustment of permit fees should be documented on the applications.

5. Continued... ..

- Establish supervisory reviews of permit applications processed and issued.

Management's Responses

The new based system in Trades should resolve any problems identified in Observation 5. Both the Permit Supervisor and the Executive Assistant receive automatic e-mail from the web based system whenever any fee is adjusted. This provides two levels of supervisory review.

6. Inadequate Retention Period For Source Documents (Repeated)

Housing Conservation District (HCD) maintains application data and violation information on the computer system until there is a change in the tenant occupying the property. However, Certificate of Inspection applications, inspection reports and other documents, signed by the inspector in- charge, were discarded three months after the certificate was issued. The Building Division has not improved on its retention policy for Certificate of Inspection (COI) application. No copies of the signed documents are kept, either on microfilm or scanned image in the City's electronics document retrieval system files.

City Ordinance #60664 Section 110.7 requires departments to retain source documents supporting entries to the City's General Ledger, at a minimum, until the public audit of the City for the affected fiscal year has been completed. The same section also requires official records of application for permits or certificates be kept for as long as the building or condition to which they relate exists.

The HCD personnel indicated that indefinite retention of the documents is not required. The Building Division's current IT System does not have the required storage capability to retain all documents and records. The IT System will need to be upgraded to improve the Building Division's record retention capability.

The Building Division may not be complying with the City's documents/ records retention requirements. Failure to keep HCD vital inspection report documents may affect future audits.

Recommendation

IAS recommends the management of the Building Division ensure that each of the COI application and related inspection reports be retained in paper or electronic format as required by the applicable City Ordinance #60664, Section 110.7

Management's Responses

The old, antiquated Data Flex system does not allow for adequate HCD record retention. The Building Division is in the process of replacing this operating system with a modern,

6. Continued... ..

web based system similar to the successfully implemented Trades Section operating system. When the web based system is fully implemented, there will be more than adequate retention of records for the Housing Conservation District Program.

Additional Management Response

The Building Division would like to recognize that this audit was conducted in a very efficient and professional manner. We find these internal audits to be worthwhile and essential to efforts at continuous improvement. Outside perspectives from such technically qualified professionals are highly valued by this Division. We would like to thank the Internal Audit Section for their efforts in our behalf.